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DEPARTMENT OF ENERGY (EROSSI,TSARKUS,JGIOVE), INR/I
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SUBJECT: NORWAY'S ENERGY PART III: OPEN (OR CLOSED) FOR
BUSINESS?

REF: A. OSLO 126
¶B. OSLO 128

Classified By: DCM Kevin M. Johnson, Reasons 1.4 (b) and (d)

1.(C) Summary. Norwegian country managers of U.S. energy suppliers and producers are voicing concerns over GON policies, regulations and political moves, which they believe may threaten long-term Norwegian Continental Shelf (NCS) development. Directors of the state agency Norwegian Petroleum Directorate (NPD), while painting a picture of robust NCS licensing opportunities for foreign firms, also note declining reserves and real concerns of a disinterested Norwegian society which may eventually turn its back on future NCS development. End Summary.

Taxes Galore, High Infrastructure Costs

2.(C) Energy suppliers and oil/gas producers noted challenges presented by the Norwegian tax regime. Complaints against high Norwegian taxes are nothing new: energy companies face a 78% tax (28% standard corporate tax, 50% energy industry tax). The transparency of doing business in Norway, and the currently escalating oil and gas costs, have counterbalanced high operating costs. Many U.S. businesses bemoaned the Norwegian government's high ex-pat taxes, one ex-pat employee costs approximately the same as three Norwegians. Increased taxes place external stresses on U.S. energy companies and suppliers, given the enormous demand for trained, skilled energy field professionals, the small domestic population (4.6 million) and near non-existent unemployment (less than 2%).

3.(C) Some energy producers blame increased operating costs and over-regulated health and safety standards as the reason why several projects are not moving forward, despite record oil/gas prices. For example, ConocoPhillips' plans to enter into a second phase of its decades old Ekofisk project has been put on hold, due to high infrastructure costs. One country manager noted that stringent GON safety requirements, particularly involving rigs, prompt some major U.S. companies to balk at new projects. For example, a rig outfitted to legally do business in the UK, Norway's neighbor, must undergo costly and time-consuming retrofitting to comply with tough Norwegian safety regulations.

Ms. Haga, Tear Down Those Blocks!

4.(C) There are increasing fears among suppliers and producers that Petroleum Minister Haga and Environment and International Development Minster Solheim are vying "to be the environmentally greenest." Minister Haga faces industry criticism that, although highly intelligent and an astute politician (she leads the Center Party, a junior coalition partner), her policy is "directionless," and inviting too many environmental NGOs into the licensing round public comment process. Moreover, her seeming focus on alternative energy, and lack of concern with the "traditional" hydrocarbon industry, is viewed as alarming. (Note: Despite criticism, private energy industry leaders applaud the Minister's quarterly top management forum, which gathers industry leaders and bureaucrats for frank, candid discussions--though many confess that little real action results).

5.(C) Access to the NCS, given StatoilHydro's operatorship dominance (Reftels A and B), continues to raise alarms from oil/gas operators. It is widely believed that Nordland VI and VII will be largely awarded to StatoilHydro. One country oil/gas producer manager, familiar with doing deals in developing countries, was flabbergasted that the GON practices "discretionary transparency," where the government awards licensing round winners to whom it subjectively likes best. The GON is unabashedly candid about its practice to let certain companies in, or keep others out, based on those it considers play by its rules. Suppliers voice concerns that the recent GON buy-in of AkerKvaerner, the largest supplier to the Norwegian Continental Shelf oil/gas industry, may also lead to future closed markets for rival U.S. suppliers.

The Gathering Storm: Reduced Oil Production, Disinterested Americans...and Norwegians?

6.(C) Declining oil production and some marked lack of foreign interest in certain fields, coupled with Norwegian indifference, raise concerns from GON officials. Oil production for the NCS has sharply declined to approximately 2.5 million barrels per day, from last year's 3 million. The 20th licensing round (with project license award date in March, 2009, focusing on deep waters in the Norwegian and Barents Seas) has attracted cautious U.S. interest (Note: The NPD argues that less majors and more (non-US) independents are focusing on small and mid-sized fields.) One industry expert speculated that fewer U.S. independents are interested in "marginal" Norwegian projects (less than 50 million barrels) due to the heavy Norwegian taxes and operational costs involved. In addition, some U.S. independents balk at Norwegian legal requirements, mandating that all NCS work must be done through a Norwegian office. Major projects are more desirable, with long-term projections of higher reserves adequately addressing the enormous Norwegian infrastructure costs.

7.(C) NPD directors revealed that GON plans to aggressively maintain production levels (most particularly oil), admitting a current steeper oil decrease than anticipated. The GON faces tough challenges, as major oil fields, such as Statfjord, and Ekofisk, are aging. Within 6 years, it is projected that 50% of energy exports will be from gas. The NPD aspires to increase oil production through tax incentivized recovery rate technologies and increased R&D, adding 5 million barrels of oil into its 2015 estimates.

8.(C) NPD officials were clearly troubled by perceptions that the Norwegian population does not wish to continue with oil/gas exploration. The officials expressed worry that Norwegians focus more on promoting anti-climate change agendas than realizing the crucial role energy exports has for Norway, which is the third largest exporter of gas, and fifth largest of oil, globally. One NPD director went so far as to suggest that Americans "help them" educate the Norwegian public as to the importance of being active in

future oil/gas field development, particularly as energy projects take many years of lead time. These fears are recognized by the private sector: one country manager of an energy producer mused that if no significant new acreage is opened up by 2010, all significant finds will have been investigated and U.S. companies, saddled by infrastructure costs, will move out of Norway.

Open For Business, or Closed on Day One?

9.(C) Despite such concerns, NPD officials point out that interest from the major producers in the 20th licensing round is evident by numbers: an astounding 301 blocks were nominated (with each nominating party restricted to 15 candidates). Most blocks will not become actual applications, which one country energy producer manager suggested was "smart maneuvering" by Minister Haga. Namely, by getting more NGOs involved in the licensing block nominating process, most of the nominated blocks (which realistically would have otherwise been found unfeasible by the GON) would be denied publicly, showing the GON's "open commitment" to a strong environmental policy. All parties stress that the 20th licensing round is the first time the GON made public nominated blocks, and ultimate results from the engagement of various NGOs are too soon to judge.

Biting the Hand that Feeds You?

10.(C) Comment. U.S. energy producers and suppliers doing business in Norway, worry that the GON will be its own worse enemy. Troublesome tax rates, which seem to discourage domestic operation expansion, and high operation costs are turning some majors off from expanding existing projects, and are discouraging mid-sized U.S. independent producers from even entering into Norway. The NPD recognizes this trend, and seem frustrated with GON politicians--and, most alarming, with the apparent indifference of the Norwegian population to encourage future energy development. Success could inevitably be the worst enemy of Norway, as both the private sector (and most tellingly, government officials) are concerned that future NCS development will cease, not from

lack of resouces, but from, ironically, public disinterest. End Comment.
WHITNEY